

CITY OF KELLOGG

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
AUGUST 1, 2014 THROUGH JULY 31, 2015**

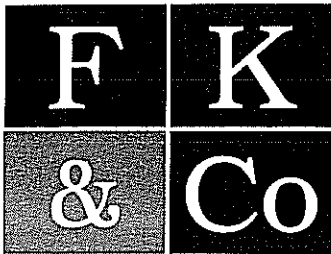
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City of Kellogg

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Van Waardhuizen	Mayor	Resigned
Tenny Hinshaw	Mayor	Jan 2016
Mark Frymoyer	Council Member	Jan 2016
Brenda Alrich	Council Member	Jan 2018
Rick Avery	Council Member	Jan 2015
Sheri Leavens	Council Member	Resigned
Jeff Parsons	Council Member	Resigned
Gene Whisenand	Council Member	Resigned
Shirley Shippers	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Kellogg for the period August 1, 2014 through July 31, 2015. The City of Kellogg's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Kellogg, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Kellogg and other parties to whom the City of Kellogg may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Kellogg during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

Faller, Kincheloe & Co, PLC

December 4, 2015

CITY OF KELLOGG

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Debt – recordkeeping, compliance and debt payment processing.
6. Payroll – recordkeeping, preparation and distribution.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings, including total disbursements from each fund and a summary of all receipts, be published within fifteen days of the meeting. Minutes were published in a town newsletter which does not comply with the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

- (C) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

CITY OF KELLOGG

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (D) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (E) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (F) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

CITY OF KELLOGG

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported receipts and disbursements do not agree with the City’s records. In addition, the City did not report all of the budget items on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that all budget categories are included on future Annual Financial Reports.

- (I) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also, a public hearing was not held prior to the budget being approved as required by Chapter 384.16 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget and a public hearing should have been held in accordance with Chapter 384.16 of the Code of Iowa.

- (J) Payment of General Obligation Bonds – The general obligation note payments were recorded in the TIF Fund rather than the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

Recommendation – General obligation note payments should be recorded in the Debt Service Fund as required by Chapter 384.4 of the Code of Iowa.

- (K) Debt Service – For the year ended July 31, 2015, the City had a cash balance in the Debt Service Fund of \$4,510 without appropriate general obligation debt.

Recommendation – The City should consult legal counsel regarding this matter.

CITY OF KELLOGG

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (L) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 20% for general purposes and 80% for community betterment. All of the local option sales tax receipts are recorded in the general fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

- (M) Bank Reconciliations – The savings and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (N) Payroll – Annual salary increases for some City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes.

Recommendation – Salaries of employees should be adequately documented in the City Council minutes.

- (O) Annual Urban Renewal Report (AURR) – The AURR was not approved by the City Council and was not certified to the Iowa Department of Management on or before December 1. The report was certified on December 30, 2014.

In addition, the amount reported as TIF debt outstanding on the Levy Authority Summary was overstated by \$1,417,955.

Recommendation – The City should approve and file the AURR timely and should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

CITY OF KELLOGG

DETAILED RECOMMENDATIONS

For the period August 1, 2014 through July 31, 2015

- (P) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

The City has a cash balance of \$232,803 at July 31, 2015 in the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). However, the City had no outstanding TIF obligations at that date. Chapter 24.21 of the Code of Iowa requires, when the necessity for maintaining the TIF Fund ceases to exist, the excess balance remaining in the fund, if any, be remitted to the County Treasurer and allocated to the respective taxing districts.

During the year ended June 30, 2015, the City paid \$197,217 of claims from the TIF Fund. We were unable to determine if these claims represented proper TIF obligations and, accordingly, these claims may not be an allowable use of tax increment financing receipts.

Recommendation – The City should work with TIF legal counsel to determine the disposition of the excess monies in the Special Revenue, Urban Renewal Tax Increment Fund. If the City has no further tax increment financing debt, the \$232,803 should be remitted to the County Treasurer in accordance with Chapter 24.21 of the Code of Iowa. The City should establish procedures to document claims paid with TIF monies and the City should reimburse the TIF Fund from an allowable fund, such as the General Fund, for any unallowable costs.